

**REPORT OF THE AUDIT OF THE
MONTGOMERY COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period
April 29, 2006 Through April 30, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MONTGOMERY COUNTY
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period
April 29, 2006 Through April 30, 2007

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2006 Taxes for Montgomery County Sheriff for the period April 29, 2006 through April 30, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$9,521,586 for the districts for 2006 taxes, retaining commissions of \$305,544 to operate the Sheriff's office. The Sheriff distributed taxes of \$9,156,515 to the districts for 2006 taxes. Taxes of \$53,214 are due to the districts from the Sheriff.

Report Comments:

- The Sheriff Should Apply The Correct Commission To The County And Ambulance District Taxes
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$307,398 November 9, 2006
- Uncollateralized and Uninsured \$ 78,334 April 7, 2007

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor
Robert M. Burnside, Secretary
Finance and Administration Cabinet
Honorable B. D. Wilson, Jr., Montgomery County Judge/Executive
Honorable Fred Shortridge, Montgomery County Sheriff
Members of the Montgomery County Fiscal Court

Independent Auditor's Report

We have audited the Montgomery County Sheriff's Settlement - 2006 Taxes for the period April 29, 2006 through April 30, 2007. This tax settlement is the responsibility of the Montgomery County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Montgomery County Sheriff's taxes charged, credited, and paid for the period April 29, 2006 through April 30, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated August 14, 2007 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robert M. Burnside, Secretary

Finance and Administration Cabinet

Honorable B. D. Wilson, Jr., Montgomery County Judge/Executive

Honorable Fred Shortridge, Montgomery County Sheriff

Members of the Montgomery County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Apply The Correct Commission To The County And Ambulance District Taxes
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

August 14, 2007

MONTGOMERY COUNTY
FRED SHORTRIDGE, SHERIFF
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period April 29, 2006 Through April 30, 2007

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 635,356	\$ 1,649,288	\$ 4,493,535	\$ 1,183,416
Tangible Personal Property	76,146	269,868	432,085	420,392
Fire Protection	114			
Increases Through Exonerations	61	156	430	113
Franchise Taxes	76,483	253,120	472,961	
Additional Billings	1,537	4,273	10,683	2,862
Limestone, Sand and Mineral Reserves	157	467	1,108	291
Penalties	5,157	13,987	35,976	9,706
Adjusted to Sheriff's Receipt	(80)	(285)	(992)	(308)
Gross Chargeable to Sheriff	<u>794,931</u>	<u>2,190,874</u>	<u>5,445,786</u>	<u>1,616,472</u>
<u>Credits</u>				
Exonerations	1,758	4,856	12,145	3,546
Discounts	10,252	27,648	70,759	24,032
Delinquents:				
Real Estate	19,013	49,438	134,441	35,263
Tangible Personal Property	903	2,942	5,122	4,775
Franchise Taxes	<u>11,413</u>	<u>36,485</u>	<u>71,686</u>	
Total Credits	<u>43,339</u>	<u>121,369</u>	<u>294,153</u>	<u>67,616</u>
Taxes Collected	751,592	2,069,505	5,151,633	1,548,856
Less: Commissions *	<u>32,230</u>	<u>65,530</u>	<u>141,670</u>	<u>66,114</u>
Taxes Due	719,362	2,003,975	5,009,963	1,482,742
Taxes Paid	716,401	1,987,587	4,979,013	1,473,514
Refunds (Current and Prior Year)	<u>506</u>	<u>1,284</u>	<u>3,582</u>	<u>941</u>
Due Districts		**		
as of Completion of Fieldwork	<u>\$ 2,455</u>	<u>\$ 15,104</u>	<u>\$ 27,368</u>	<u>\$ 8,287</u>

* and ** See Next Page.

The accompanying notes are an integral part of this financial statement.

MONTGOMERY COUNTY
 FRED SHORTRIDGE, SHERIFF
 SHERIFF'S SETTLEMENT - 2006 TAXES
 For The Period April 29, 2006 Through April 30, 2007
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	3,331,334
4% on	\$	366,860
2.75% on	\$	5,151,633
1% on	\$	661,759

** Special Taxing Districts:

Library District	\$	7,387
Health District		2,645
Extension District		1,414
Ambulance District		2,513
Fire District		<u>1,145</u>
Due Districts	\$	<u><u>15,104</u></u>

The accompanying notes are an integral part of this financial statement.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENT

April 30, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

MONTGOMERY COUNTY
NOTES TO FINANCIAL STATEMENT
APRIL 30, 2007
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of April 30, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, the Sheriff's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$307,398 November 9, 2006
- Uncollateralized and Uninsured \$ 78,334 April 7, 2007

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 20, 2006 through April 30, 2007.

Note 4. Interest Income

The Montgomery County Sheriff earned \$19,662 as interest income on 2006 taxes. The Sheriff was in substantial compliance with his statutory responsibility regarding interest.

Note 5. Sheriff's 10% Add-On Fee

The Montgomery County Sheriff collected \$47,148 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Montgomery County Sheriff collected \$1,019 of advertising costs and \$1,019 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable B. D. Wilson, Jr., Montgomery County Judge/Executive
Honorable Fred Shortridge, Montgomery County Sheriff
Members of the Montgomery County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Montgomery County Sheriff's Settlement - 2006 Taxes for the period April 29, 2006 through April 30, 2007, and have issued our report thereon dated August 14, 2007. The Sheriff prepares his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Montgomery County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Montgomery County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Montgomery County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Montgomery County Sheriff's Settlement – 2006 Taxes for the period April 29, 2006 through April 30, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Apply The Correct Commission To The County And Ambulance District Taxes

The Montgomery County Sheriff's response to the findings identified in our audit is included in the accompanying comments and recommendations. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

August 14, 2007

COMMENTS AND RECOMMENDATIONS

MONTGOMERY COUNTY
FRED SHORTRIDGE, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 29, 2006 Through April 30, 2007

STATE LAWS AND REGULATIONS:

The Sheriff Should Apply The Correct Commission To The County And Ambulance District Taxes

The Sheriff took 4.25% commission on the Ambulance District taxes rather than the 4.0% allowed by KRS 108.100(4)(d). Also, the Sheriff took a 4.00% commission on the County taxes rather than the 4.25% he is allowed. We recommend the Sheriff begin taking the proper commission on the County and Ambulance District taxes.

Sheriff's Response: I accept audit and I will contact software company and have the commission rates corrected.

INTERNAL CONTROL – SIGNIFICANT DEFICIENCIES:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties because the Sheriff's bookkeeper maintains the ledgers, deposits the collections, collects funds from customers and prepares checks. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend the Sheriff segregate these duties or put the following compensating controls in place to offset this internal control weakness:

- The Sheriff should periodically compare the daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The Sheriff could document this by initialing the bank deposit, daily checkout sheet and receipts ledger.
- The Sheriff should compare the monthly financial report to receipts and disbursements ledgers for accuracy. Any differences should be reconciled. The Sheriff could document this by initialing the monthly financial reports.
- The Sheriff should periodically compare payments to the taxing districts. The Sheriff could document this by initialing the monthly reports.
- The Sheriff should periodically compare the monthly bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.

Sheriff's Response: I will try to comply with audit, but due to our size it makes it difficult to do.

